BUSINESS TELECOMMUNICATION SERVICES, INC.

EXAMINATION REPORT

AS OF JUNE 30, 2004

MORRISON, BROWN, ARGIZ & FARRA, LLP
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Federal Communications Commission
Business Telecommunication Services, Inc.

We have examined Business Telecommunication Services, Inc.'s (BTS) compliance with the nine factors outlined by the Federal Communications Commission (FCC) pursuant to section 64.1310(a)(1) as of June 30, 2004. Management is responsible for BTS's compliance with those requirements. Our responsibility is to express an opinion on BTS's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about BTS's compliance with the nine factors outlined by the FCC and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on BTS's compliance with the specified requirements.

In our opinion, BTS complied, in all material respects, with the aforementioned requirements as of June 30, 2004.

Morrison, Brown, Argiz & Farra, LLP

Miami, Florida
July 12, 2004

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Federal Communications Commission (FCC)

On October 3, 2003, the FCC amended its Dial Around Compensation (DAC) rules to require Switch-Based Resellers (SBR) to compensate Payphone Service Providers (PSP) directly. DAC is the process by which PSP receive reimbursement for toll free calls placed from their payphones.

The previous ruling required the first underlying facilities-based interchange carrier to pay PSP and seek reimbursement from the SBR. Under the new rules, carriers that own or lease a switch and use the switch to complete the calls are directly responsible for compensating PSP for each toll free call placed from a payphone.

BTS is a FCC licensed, Florida registered, Miami-based Inter-Exchange Carrier and full service telecommunications provider that acts s a Switch-Based Reseller.

FCC Certification & Audit Requirements:

The FCC requires the SBRs to comply with the following criteria:

- Whether the Completing Carrier's procedures accurately track calls to completion. A Completing Carrier is a long distance carrier or switch-based long distance reseller or a local exchange carrier (LEC) that completes a coin less access code or subscriber toll-free payphone call.

- Whether the SBR has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls

- Whether the SBR has effective data monitoring procedures

- Whether the SBR adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability

- Whether the SBR has created a compensable payphone call file by matching call detail records against payphone identifiers

- Whether the SBR has procedures to incorporate call data into required reports

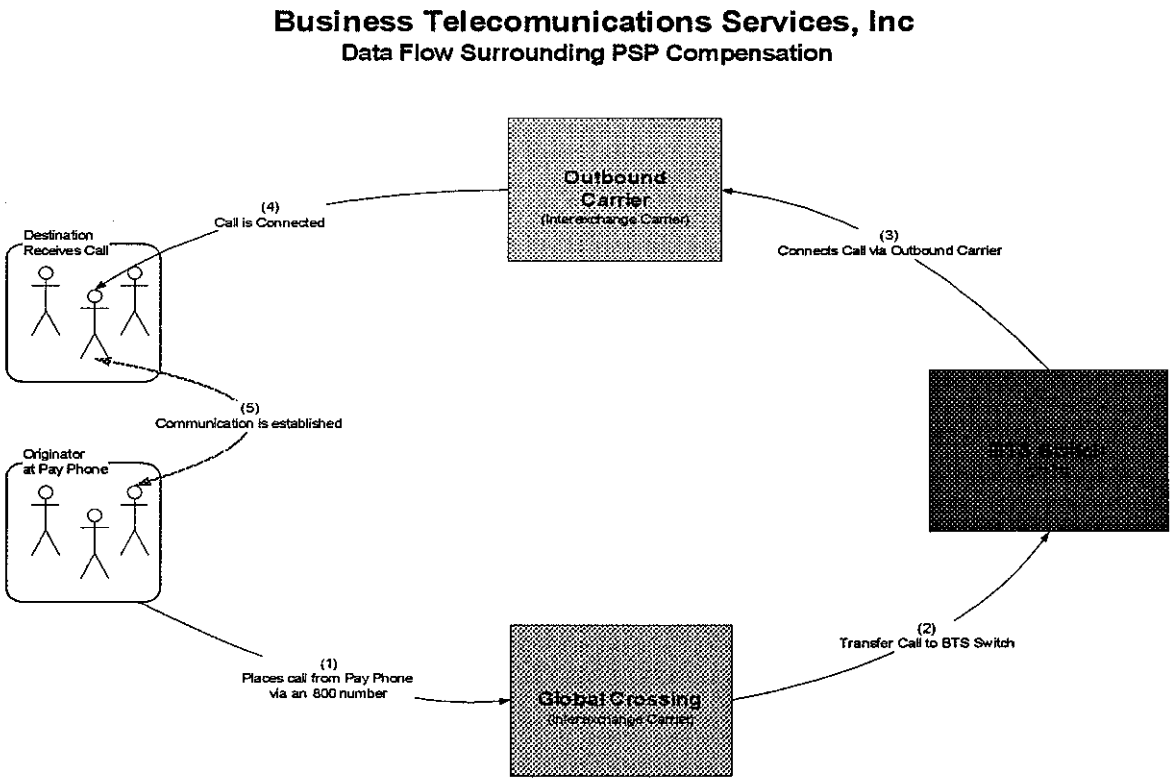
- Whether the SBR has implemented procedures and controls needed to resolve disputes

- Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial

- ❖ Whether the SBRs have adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the PSPs to which the SBR owes compensation

We have performed various procedures to determine whether BTS is in compliance with the nine factors stated above. Refer to each respective criteria for procedures performed.

Payphone Service Provider Compensation Data Flow



As demonstrated in the sketch above, an originator places a phone call by using one of the 800 number assigned to BTS by Global Crossing, the inbound carrier. The call is then transferred to an outbound carrier through the BTS switch. This outbound carrier connects the call to its final destination.

All calls are assigned a two-digit code, known as *info digits* (payphone indicator), by the Local Exchange Carrier (LEC) and passed on to the switch identifying the type of telephone where the call originated. The info digit is used to differentiate whether the call originated from a payphone. Payphone indicator values include "08" which represents a call originating from an Owner Payphone, "70" which identifies all calls originating from a payphone line which does not use network provided coin control signaling, and "27" which identifies calls originating from a payphone line which uses network provided coin control signaling.

An automated script is executed automatically once a month. This program connects to the database, and runs a query with the following parameters to identify payphone-completed calls:

- Dialing an 800 number (Search the switch for the Dial Number Identification Service Number "DNIS") and/or
- Payphone originated calls (Search the switch for calls with payphone specific info digits) and
- completed (answered duration > 0)

Once the Call Detail Records (CDRs) are obtained, the information is formatted with the specifications provided by Atlantax Systems Inc, the third party retained as the clearinghouse for dial around compensation.

Atlantax Systems, Inc.

For the purpose of accurately compensating PSPs for all connected calls originating from payphones, BTS has retained the services of Atlantax Systems, Inc. Atlantax Systems, Inc. (Atlantax) is a ten year old privately owned company with offices in Atlanta, Georgia and Torrence, California. Atlanta offers both license and service bureau tax compliance solutions, including tax related and dial around compensation clearinghouse services for the telecommunication, utility and retail industries. Atlantax requires, that on a monthly basis, an electronic file be transmitted to them incorporating all completed payphone originated toll free calls identified on BTS' network.

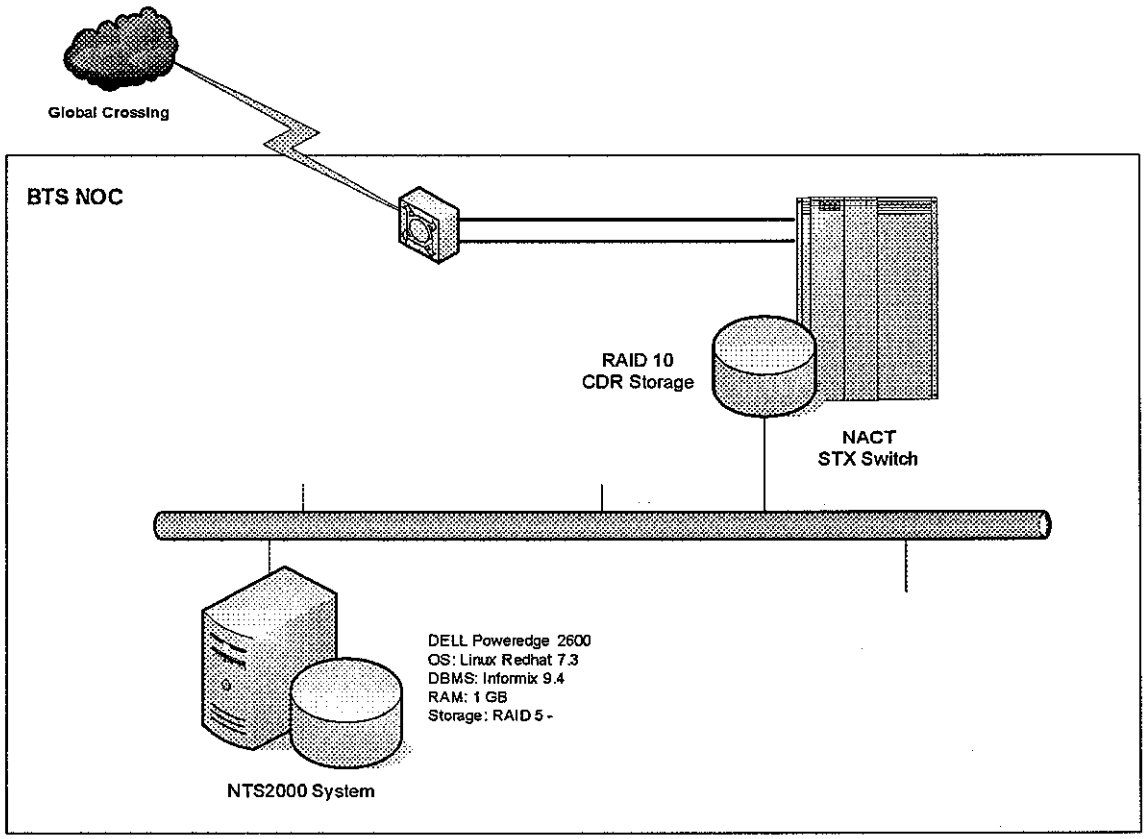
The Atlantax Dial Around Compensation Clearinghouse provides a complete mechanism for complying with the FCC dial around compensation directives. Atlantax uses a proprietary program, which provides reliable, automated processing, calculation, remittance, and dispute resolution.

Agreed-upon procedures were performed by certified public accountants to evaluate the adequacy of Atlantax's Dial Around Compensation. Procedures performed were in the following areas:

1. General Control Environment
2. Payphone ANI (i.e., telephone numbers) Data
3. Call Detail Record (CDR) Data
4. Comparison of ANI and CDR Data Sets
5. DAC Program to Determine Liabilities to PSP's

The independent accountants' report on agreed-upon procedures in connection with the Dial Around Process of Atlantax Systems, Inc. dated June 22, 2004 did not reveal any significant deficiencies.

Overview of BTS Call Tracking System:



The payphone call tracking system is part of BTS' larger infrastructure for other services it provides to its customers and consists primarily of an NACT STX switch, two inbound trunk groups from Global Crossing, and the NTS2000 Billing/OSS System. All three components are housed in the NOC located at 444 Brickell Avenue.

The NACT consists of two parts: (1) the STX switch and (2) the NTS Billing System. The STX switch is where the physical T1's are connected; both incoming and outgoing to either the Public Switch Telephone Network "PSTN" or to another switch.

The STX switch is kept redundant by a RAID 10, where CDR's are stored. A daily backup is done on the STX on a DAT 4mm Data Cartridge. There is also redundancy on the power supply.

A proprietary Unix variant called WMCS is the operating system that runs the STX. The STX software is composed of log files, data files and processes that use the information in the data files. Processes are programs written to link pieces of information found in data file records. Log files contain information gathered as a process runs.

Data files store information to be retrieved and link to other information through various processes. The information found on the data files is organized by fields and records. Certain fields are known as key fields. Key fields have two purposes: first, they must be filled in order for a record to exist. Second, they reference information found in records of other data files.

The NTS is powered by a Dell Power Edge 2600 Server running on Red Hat Linux 7.3. It has a RAID 5 with a dual channel controller. It also has redundancy on the power supply. Data is collected from the STX by the NTS and stored in an Informix database 9.4. Collections can be performed manually for as many times a day as necessary or they can be set up to run automatically as many times a day as necessary through the cron process.

Currently, BTS runs the collection process every two minutes. The NTS connects to the STX via TCP/IP socket. After connecting, the NTS downloads all the new records from the last successful collection.

Criteria # 1 Whether the Completing Carrier's procedures accurately track calls to completion

We examined BTS's policies and procedures to accurately track calls to completion and determined that they were appropriate. In addition, we performed certain procedures, which verified that BTS was in compliance with their policies and procedures. Such procedures are outlined below:

Observation:

BTS has created a SQL query as part of an automated script in order to extract the specified information from the database to determine completed calls. In order to correctly identify a completed call, BTS considers that a call was connected when the answered duration is not zero.

Procedures:

We reviewed the SQL query and the Perl script that was being used to produce the monthly CDR for Atlantax.

Findings:

We noted that the SQL query was truncating the last three digits of the destination number when it was longer than 10. Even though this was in accordance with the clearinghouse' file layout, we recommended that BTS extend the field size as most destinations were international. This was possible because there was a filler that could be utilized for this purpose in the layout. BTS agreed with the recommendation and implemented it immediately. In conclusion, we found that both the query and the script reflected the business rules and internal policies of BTS and its clearinghouse, Atlantax.

Procedures:

We purchased and obtained calling cards of BTS customers and utilized these cards to perform actual calls from various payphones. We placed international/domestic calls using residential, business, and cellular phones with the pin number provided by the prepaid cards in order to verify that the system captures these calls as non-compensable. In addition, we placed long distance calls using the local numbers from the prepaid cards by depositing coins into payphones and we verified that these calls are not identified as compensable. All calls performed were traced and agreed to the data on the query report for accuracy and completeness.

Findings:

We verified the accuracy of the SQL queries utilized to extract pertinent information from the database. We noted that the system queries created by BTS identified all calls made using the callings cards. In addition, the system was able to identify calls originating from payphones and the duration of these calls.

Criteria # 2 **Whether the Completing Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.**

We noted that BTS has a person responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.

Observation:

Per review of the policies and procedures regarding dispute resolution, we noted that there are two types of disputes that can arise from an 800 toll free traffic as follows:

(1) Different PSP claiming ownership of the same payphone.

(2) PSP requesting payment for more calls than the number of compensable calls identified in the carrier's network, however, such disputes are very rare.

Under Scenario #1, Atlantax manages all disputes until closure is reached. Payments attributable to disputed or unidentified ANI's are suspended pending verification and dispute resolution (Refer below).

Under Scenario #2, BTS will provide the PSP with the CDRs of all completed and uncompleted calls originated from the payphone in question with detailed call supervision results explaining the reason calls were marked as not completed.

BTS has appointed and designated the CFO as the person ultimately in charge of resolving disputes concerning payphone completed calls.

Criteria # 3 Whether the Completing Carrier has effective data monitoring procedures

We examined BTS's policies and procedures for data monitoring procedures and determined that they are appropriate and effective. In addition, we performed certain procedures, which verified that BTS was in compliance with their policies and procedures. Such procedures are outlined below:

Procedures:

We discussed with the CFO the procedures in place for quality assurance on the information contained in the database. We reviewed the SQL queries set up to verify the accuracy of the data extracted.

Findings:

We noted that the system is programmed to run automated daily queries to test data accuracy, integrity and completeness. The queries are run to identify the following problems:

1. There are no calls missing info digits
2. All source and DNIS numbers contain 10 digits
3. Call completion volume variation

An exception report with any detected problems is then sent by e-mail to the appropriate personnel for investigation.

We ran the SQL query created by BTS on the CDRs provided to us. The SQL query appears to be adequate for identifying problems.

Criteria # 4 **Whether the Completing Carrier adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability.**

We noted that BTS has the controls and technical/human resources needed to ensure that software, hardware, or personnel changes do not adversely affect its payphone call tracking ability. We found adequate knowledge distributed among the various levels of employees and available documentation of the corresponding procedures for operating and maintaining the systems.

Procedures:

MBAF Information Technology (IT) specialist visited Business Telecommunications Services, Inc. (BTS) NOC where the NACT switch is located and met with the network administrators, Humberto Proano and Luis Benevente on July 8, 2004 to obtain a general overview of the organization's General Controls as it relates to their policies, procedures and practices surrounding the Call Tracking System. A question and answer session was conducted with the each of the persons mentioned above to obtain a greater understanding of the organization's system controls. The IT specialist inspected the Linux server and the NACT switch configuration with the assistance of client's employees on-site to assess potential risks and overall security posture (fault tolerance, logical and physical user permissions and software patch levels) of these systems.

Findings:

We found several minor weaknesses in BTS' general controls, which were immediately addressed or are in the process of being addressed by management with the exception of a comprehensive disaster recovery plan, which is currently in the process of being documented. We did not find any significant deficiencies in BTS' general controls.

Criteria # 5 **Whether the Completing Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.**

We noted that BTS has created a compensable payphone call file by matching call detail records against payphone identifiers. We performed certain procedures, which verified that BTS was in compliance with such criteria. Procedures are outlined below:

Procedures:

We verified the accuracy of the SQL query to extract the information necessary to determine the pay phone provider (i.e. origination/source number). We verified that the origination numbers represented valid payphone numbers and were not NULL.

Findings:

We noted that the SQL query is able to capture the origination number of all calls and that this information was being sent to the clearinghouse, Atlantax.

Atlantax Fields Layout – Required Fields for DacPac:

Header Record:

Position	Description	Values Accepted
1-8	SBR ID	Provided by Atlantax
9-12	Claim Period	YYMM

Our systems require a carriage return / line feed (CR/LF) at the end of each record.

Detail Record:

Position	Description	Values Accepted
1-2	Category	"01"
3-4	Group	"01"
5-6	Record Type	"25"
7-12	Call Date	YYMMDD (Year, Month, Day)
13-14	From Number Length	"10"
15-24	From Number (Origination)	NPANXXNNNN
28-29	800 Number Dial Length	"10"
30-39	800 Number	800NNNNNNN
40-41	Final Connect Number Length	"10"
42-51	Final Connected Number	NPANXXNNNN (If International use 42-54)
55-60	Connect Time	HHMMSS (Hour, Minute, Second)
81-82	Pay phone indicator	"8", "08" or "70" or "27"
83-86	CIC Code	Carrier Identification Code of the Facilities Based Carrier that Routed call to Completing Carrier
87-97	Client Defined	Client Defined
98-150	Filler – Atlantax Reserve	Zero Fill or Leave Blank

Our systems require a carriage return / line feed (CR/LF) at the end of each record.

Trailer Record:

Position	Description	Values Accepted
1-2	ZZ	"ZZ"
3-10	Atlantax Reserve	Leave Blank
11-22	Total Record Count	XXXXXXXXXXXX (Right Justified)

Our systems require a carriage return / line feed (CR/LF) at the end of each record.

If you only have a DNIS for the 800 Number, Zero Fill the first three positions.

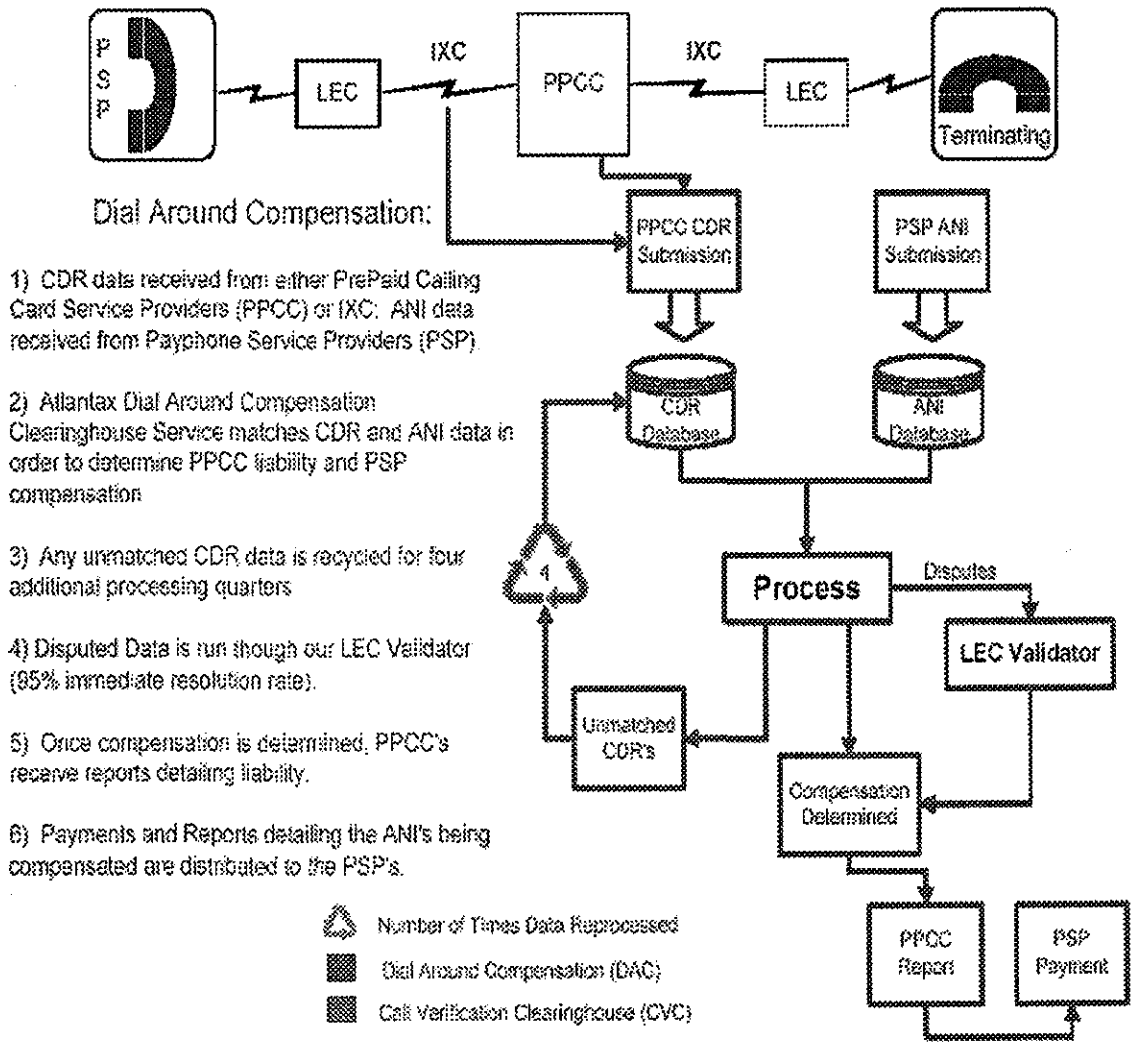
Payphone Indicator Values:

"8" or "08" – if just "8" then character must appear in position 82. Owner Payphone.

"70" – Flex Ani 70- Identifies calls originating from a payphone line which does not use network provided coin control signaling.
"27" – Identifies calls originating from a payphone line which uses network provided coin control signaling.

Procedures:

We reviewed Atlantax's procedures with regards to reimbursement. Below is a sketch detailing the process:



Findings:

Per review of the documented procedures provided by Atlantax with regards to Dial Around Compensation, we have determined that the procedures to identify compensable payphone calls appear adequate. In addition, agreed-upon procedures were performed by certified public accountants to evaluate the adequacy of Atlantax's Dial Around Compensation. The report did not reveal any significant deficiencies.

Criteria # 6 Whether the Completing Carrier has procedures to incorporate call data into required reports.

We examined BTS policies and procedures to incorporate call data into required reports. We performed certain procedures, which verified that BTS was in compliance with such criteria. Procedures are outlined below:

Procedures:

We reviewed BTS' Payphone Call Tracking Procedures Manual to ensure all procedures to incorporate call data into required reports are adequate and properly documented. In addition, we reviewed the actual SQL query used for accuracy. We ran this query against our own set of sample data to determine that all of the information has been captured as specified by Atlantax.

Findings:

We noted that BTS procedures manual with regards to payphone call tracking appears complete. In addition, the query appears to be well designed as it captured all required information that is needed by Atlantax for the DAC process.

Criteria # 7 Whether the Completing Carrier has implemented procedures and controls needed to resolve payphone compensation disputes.

We noted that BTS has implemented procedures and controls needed to resolve payphone compensation disputes. We performed certain procedures, which verified that BTS was in compliance with such criteria. Procedures are outlined below:

Procedures:

We reviewed the procedures in place to handle disputes documented in the Payphone Call Tracking Procedures.

Findings:

We noted that the entire dispute process is handled by Atlantax. BTS will provide additional information when deemed necessary. We also noted that the BTS procedures manual properly addresses the function and responsibility of obtaining and providing the necessary information to Atlantax.

Refer to Appendix A.

Criteria # 8 **Whether the independent third party auditor can test all critical controls and procedures to verify that errors are insubstantial.**

We were able to test critical controls and procedures to verify that errors are insubstantial. Procedures performed are as follows:

Procedures:

We reviewed BTS general controls including organizational controls, access controls, monitoring and reporting, and disaster recovery.

Findings

Refer to Criteria # 4.

Procedures:

We obtained the CDRs from Global Crossing, Inter Exchange Carrier, for the months of April, May, June 2004. We created a query to identify all coinless payphone calls transferred to the BTS switch. The information was then compared to in-house data reports, which were produced using BTS' standard query, for consistency and accuracy.

Findings

Based on the comparison assessment of the Global Crossing historical data with the matching data from BTS, we were able to determine that the pass-through transactions were being captured correctly. We did note that 4,412 out of 31,916 transactions were not identified, as they had no info digits. We were informed by BTS that these were transactions that were transferred from an older switch that was used for one of the two trunks from Global Crossing until the new rule was implemented. We tested a sample of these transactions and were able to determine that the 800 numbers in these transactions were all from the mentioned trunk. In order to comply with the new rule, both trunk groups have been routed to the NACT switch, which has the ability to capture all necessary information.

Criteria # 9 **Whether the Completing Carrier has in place adequate and effective business rules for implementing and paying payphone compensation, including rules to — identify calls originated from payphones, identify compensable payphone calls, identify incomplete or otherwise noncompensable calls, and determine the identities of the payphone service providers to which the Completing Carrier owes compensation.**

We noted that BTS has adequate and effective business rules to identify calls originated from payphones, identify compensable payphone calls, identify incomplete or otherwise non-compensable calls, and determine the identities of the payphone service providers to which BTS owes compensation. Procedures performed are as follows:

Procedure:

Step 1
We acquired several prepaid cards of BTS customers and used them to make select calls in a variety of scenarios:

- Coinless payphone calls with International destination
- Coinless payphone calls with Domestic destination
- Coin payphone calls with International destination
- Coin payphone calls with Domestic destination
- Cell phone calls with International destination
- Cell phone calls with Domestic destination
- Other non-payphone calls with International destination
- Other non-payphone calls with Domestic destination
- Disconnected calls before connection could be established

These calls were made on different days at varying times throughout the day and in two counties. The rate of completed versus uncompleted calls was also mimicked.

Step 2
We then used the PIN for card to capture all transactions and verify against our logs for completeness. Using the criteria published by the FCC and provided by Atlantax, we categorized the calls as follows to ensure that all calls placed were accounted for:

- Total Number of Transaction Created
- Total Number of Compensable Calls:
- Total Number of Non-compensable Calls
- Total Number of Uncompleted Payphone Calls
- Total Number of Non-Coinless Non-payphone Calls
- Total Number of Call from Payphone

Step 3
The third and final step of our analysis was to run the standard query used to identify and transmit compensable payphone calls to Atlantax for compensation to the PSPs and compare the results with that from the previous step.

Findings

We were able to account for all of the transactions that we created through the system based on the categorization process and log file comparison mentioned in the above procedure.

Summary:	
Total Number of Transactions Created:	42
Total Number of Compensable Calls:	19
Total Number of Non-compensable Calls:	23
Total Number of Incompleted Payphone Calls:	4
Total Number of Non-Coinless Non-payphone Calls:	19
Total Number of Calls from Payphone:	23

The standard query used to identify and transmit compensable payphone calls to Atlantax for compensation to the PSPs also resulted in the 19 calls that we had previously tagged as compensable. This was ample verification that the process was working as intended and designed to identify calls originated from payphones, identify compensable payphone calls, identify incomplete or otherwise non-compensable calls, and determine the identities of the payphone service providers to which the BTS owes compensation

Appendix A (Excerpt taken from Atlantax's policy statements)

Atlantax Dispute Resolution process:

1. Local Exchange Carrier Validation (LEC) and Dispute Resolution.

   This process involves cross-referencing the PSP ANI and LEC ANI databases. All the disputed ANIs and their Owner Names, as passed in the PSP ANI data, are listed on screen with the corresponding LEC ANI and Owner Name information from the LEC ANI data. A comparison is made to identify the "true owner" based upon the LEC ANI data.

   If the "PSP Owner Name" from the LEC matches the 'PSP Owner Name' submitted by one of the disputing PSP owners, that PSP owner's ANI record is assigned a status code of 7 (Dispute Winner), with all other disputing owners ANI records being assigned a status code of 8 (Dispute Loser). In cases where no PSP owner name matches the LEC data, those ANI's are skipped and retain the status of 5 (Disputed). Performing a LEC Validation immediately after Processing is the fastest and easiest way to reduce the number of Disputed ANIs prior to generating a 'Disputed ANI' report. Records that maintain a status of 5 after this LEC validation process are included in the Disputed ANI report, which is submitted to each PSP claiming ownership. It is then the responsibility of the PSP to provide sufficient information to establish ownership of the ANI. As per the FCC, sufficient information may be provided as follows:

   A payphone service provider that seeks compensation for payphones that are not included on the Local Exchange Carrier's list satisfies its obligation to provide alternative reasonable verification to a payer carrier if it provides to that carrier:

(1) A notarized affidavit attesting that each of the payphones for which the payphone service provider seeks compensation is a payphone that was in working order as of the last day of the compensation period; and

(2) Corroborating evidence that each such payphone is owned by the payphone service provider seeking compensation and was in working order on the last day of the compensation period. Corroborating evidence shall include, at a minimum, the telephone bill for the last month of the billing quarter indicating use of a line screening service.

Upon receipt of substantiating evidence as per the above rules, Atlantax makes edits to that quarter's databases to adjust subsequent quarter resubmissions and processes.

3-Point Dispute Resolution Process